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Yuan Flows a Bit More Freely as China Slowly Relaxes Controls

By [FIONA LAW](#)

The use of China's yuan abroad is rising as Beijing slowly loosens its grip and allows a wider group of investors to buy the nation's currency, stocks and bonds.

In Hong Kong, where the currency is freely traded, the yuan is near the highest in a month, partly because investors are taking advantage of a slight relaxation in rules governing China's capital markets. Last week, Beijing allowed Hong Kong units of Chinese banks and insurers, as well as Hong Kong-registered financial institutions, to invest in China's stocks and bonds using yuan raised offshore for the first time.

This "could be a game-changer this time," said Li-gang Liu, chief economist for Greater China at [Australia & New Zealand Banking Group](#) Ltd. "While lots of restrictions are removed, the broader access to the onshore capital market will spur foreign investors' enthusiasm to hold assets denominated in renminbi," the currency's official name, the economist said.



Reuters

The yuan has surpassed the Russian ruble and Danish krone to become the world's 13th most-used currency for international payments. An employee counts Chinese yuan notes inside a bank in Taipei.

The yuan traded in mainland China is tightly controlled; it can only move 1% above or below the guidance set by the central bank every day. In contrast, the currency trades freely in Hong Kong, the leading offshore center, although China is keen to develop others.

Last week, China doubled a currency-swap agreement with Singapore to 300 billion yuan (US\$48.3 billion) to help the market there to grow. The initiative will boost confidence among investors and increase liquidity in Singapore's yuan market, said Dariusz Kowalczyk, [Credit Agricole](#)'s senior economist and strategist in Asia, excluding Japan.

Still, Hong Kong remains the major offshore testing ground for the currency.

In January, yuan deposits there hit 624 billion yuan, the highest in 16 months, data from the Hong Kong Monetary Authority showed. Also, the volume of offshore yuan debt, known as dim sum bonds, issued in the first two months of the year jumped to US\$2.05 billion, from US\$1.84 billion during the same period last year, according to data provider Dealogic.

The yuan has surpassed the Russian ruble and Danish krone to become the world's 13th most-used currency for international payments, the Society for Worldwide Interbank Financial Telecommunication said last month.

Meanwhile, Standard Chartered says an index it has created to gauge global offshore use of the yuan rose 8.2% in January from December, the fastest monthly growth since the end of 2011.

Bankers and analysts said they expect the use of yuan in cross-border trade settlement and for investment payments to accelerate following other moves by Beijing in recent months. These include the appointment of banks in Singapore and Taiwan to clear yuan-denominated trades, and allowing companies registered in the Qianhai Bay economic zone in Shenzhen to borrow yuan from Hong Kong banks.

To be sure, though, the Chinese government retains a firm grip on the flow of yuan. It is unlikely to completely let go anytime soon.

"Beijing is cautious about mounting inflationary pressures and asset bubbles should offshore funds flow in too quickly," ANZ's Mr. Liu said. "The channels to allow yuan funds flowing back into the country will still be carefully managed."

Still, [HSBC](#) says Beijing policy makers are now more confident than ever about speeding up the process of allowing the yuan to be fully convertible, probably in the next five years.

"China's trade imbalance has been corrected and the [yuan's] exchange rate is much closer to its equilibrium level," Qu Hongbin, HSBC's chief economist for Greater China, said in a report Monday. "This will pave the way for the opening of the capital account...in the coming years."

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